

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

**IN RE: THE NARRAGANSETT ELECTRIC COMPANY :
d/b/a NATIONAL GRID’S PENSION ADJUSTMENT :
FACTOR FILING FOR THE TWELVE-MONTH PERIOD : DOCKET NO. 5054
ENDING MARCH 31, 2020 :**

ORDER

On August 3, 2020, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed its proposed electric Pension Adjustment Factor (PAF) with the Public Utilities Commission (PUC).¹ In support of its filing, National Grid submitted the joint direct testimony and schedules of its employees Jeffrey D. Oliveira and James H. Allen (the witnesses).² The Company proposed a credit factor of \$0.00073/kWh for effect on October 1, 2019.³

In their joint testimony, the witnesses explained that the PAF is based on the difference between the Company’s actual pension and post-retirement benefits other than pension (PBOP) expenses for the prior twelve-month period and the allowance included in base distribution rates.⁴ The Company is required to contribute to the pension and PBOP plans at a Minimum Funding Obligation level, which equals the amount billed to customers plus the amounts of capitalized

¹ All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <http://www.ripuc.ri.gov/eventsactions/docket/5054>. Pursuant to the Commission’s decision in Docket No. 4323, Order No. 21011 (Apr. 11, 2013), National Grid is authorized to reconcile its actual pension and post-retirement benefits other than pensions expenses annually for the twelve-month period ending March 31. The difference between the Company’s actual expense and the allowance included in base distribution rates is either charged or credited to electric retail delivery customers on a uniform per kWh basis. The PUC approved the continuation of RIPUC No. 2119 as part of its decision in Docket No. 4770, In re: The Narragansett Electric Company d/b/a National Grid Electric and Gas Distribution Rate Filing, but with an adjusted rate allowance. See PUC Order No. 23823; [http://www.ripuc.ri.gov/eventsactions/docket/4770-4780-NGrid-Ord23823 \(5-5-20\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/4770-4780-NGrid-Ord23823 (5-5-20).pdf).

² Jeffrey D. Oliveira is a Lead Specialist on the New England Revenue Requirements staff of the Strategy and Regulation Department for National Grid USA Service Company, Inc. (Service Company), and James. Allen. is a Lead Analyst in the Pension and Environmental Accounting Group for the Service Company. Jt. Test. (Aug. 3, 2020); [http://www.ripuc.ri.gov/eventsactions/docket/5054-NGrid Electric PAF 2020 \(08-03-2020\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/5054-NGrid Electric PAF 2020 (08-03-2020).pdf).

³ Jt. Test. at 7; Sch. JDO/JHA-2.

⁴ Jt. Test. at 5.

pension and benefits costs.⁵ On an annual basis, the Company reconciles its actual pension and PBOP expenses against the associated allowance in base distribution rates as determined in the most recent distribution rate case. Any difference between the pension and PBOP expenses and the associated allowance, either positive or negative, is reflected in rates assessed to the Company's electric customers through the PAF.⁶

The Company's FY2020 rate allowance for pension and PBOP costs total \$10,141,136, with pension costs accounting for \$5,325,204 of that amount and PBOP costs accounting for the remaining \$4,815,932.⁷ The Company's reconciliation showed an under-recovery of pension expense in the amount of \$215,299 for the twelve months ending March 31, 2020.⁸ The Company over-recovered PBOP expense in the amount of \$5,210,611 during that time period.⁹ The pension under-recovery combined with the over-recovery for PBOP resulted in a net current year over-recovery of \$4,995,312.¹⁰

The Company then adjusted the current year deferral by accounting for a remaining total deferral balance of \$17,607 from prior year deferrals and accounting for estimated interest of \$107,694 on the total over-recovery.¹¹ The resulting net over-recovery from the current and prior years totals \$5,085,399, including interest. This figure is then divided by the 6,951,182,260 forecasted kWhs for the period October 1, 2020 through September 30, 2021, to arrive at the \$0.00073/kWh the proposed credit factor.¹² The bill impact of the proposed PAF on a typical

⁵ *Id.* at 6. The Company also incurs a carrying charge at the weighted average cost of capital if it fails to meet the Minimum Funding Obligation level. *Id.*

⁶ *Id.* at 5.

⁷ Sch. JDO/JHA-1 at 1.

⁸ Sch. JDO/JHA-1 at 6.

⁹ Jt. Test. at 6; Sch. JDO/JHA-1 at 1.

¹⁰ Sch. JDO/JHA-1 at 1. There were no carrying charges assessed during the funding period. Jt. Test. At 7; Sch. JDO/JHA-1 at 1.

¹¹ Sch. JDO/JHA-2.

¹² Sch. JDO/JHA-2 at 1.

residential customer using 500 kWhs per month is a decrease of \$0.35, or approximately 0.3% from \$110.51 to \$110.16.¹³

After reviewing the filing, the PUC issued discovery requests to National Grid to obtain additional information on recent annual over-collections of pension and BPOP expenses. The PUC also asked National Grid and the Division of Public Utilities and Carriers (Division) to address whether the rate allowance upon which the reconciliation is based could not or should not be decreased to avoid future over-collections from ratepayers prior to the next base rate case.

On September 10, 2020, National Grid provided a supplemental response addressing the PUC's inquiry regarding a rate allowance adjustment.¹⁴ The Company stated that it did not believe it would be appropriate to adjust base rates at this time to avoid future over-collections from customers prior to the next base rate case.¹⁵ The Company explained that the rate allowances were fixed for the duration of the years covered by a rate plan, but the expense is adjusted annually based on actuarial assumptions required by accounting rules. The Company noted that it was not possible for it to exercise direct control over the magnitude and variability of this expense, which is largely a function of changing market conditions.¹⁶ The PAF has been designed for the expense to be recovered through a reconciling mechanism to ensure that customers do not pay any more or less than they should over time. Any over- or under-recoveries are returned to or from customers in the following year – which is faster than any of National Grid's other electric and gas operating affiliates.¹⁷

¹³ Jt. Test. At 8.

¹⁴ [http://www.ripuc.ri.gov/eventsactions/docket/5054-NGrid-Supp-DR-PUC1\(9-10-2020\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/5054-NGrid-Supp-DR-PUC1(9-10-2020).pdf).

¹⁵ *Id.* at 5.

¹⁶ *Id.* at 2.

¹⁷ *Id.* at 4.

On September 16, 2020, the Division of Public Utilities and Carriers (Division) filed a memorandum recommending approval of National Grid's proposed \$0.00073/kWh Credit Factor.¹⁸ The Division stated that it had reviewed the Company's filings and the responses to data requests, and had no recommended adjustments to the Company's electric PAF. The Division also agreed with the Company's response regarding the recent history of over-collections. The Division specifically noted that over-collections are not an indication of a problem with the PAF mechanism. The mechanism does not rely on cost estimates, so any over- or under-recoveries are not due to inaccurate estimates but rather market and other conditions outside the control of the Company.¹⁹

On September 22, 2020, the PUC conducted an evidentiary hearing. Mr. Oliveira and Mr. Allen testified for the Company, along with Madeline Gothie, National Grid's Director of US Pension Delivery, and William Richer, National Grid's Director of Revenue Requirements, New England. John Bell, Chief Accountant, testified for the Division. The PUC questioned the witnesses in order to obtain a better understanding of how current market conditions could affect future pension and PBOB expenses. At the hearing, the witness for both National Grid and the Division reiterated that the PAF mechanism was working as designed and that any over- or under-recoveries are due to market conditions outside of the control of the Company and actuarial assumptions required by accounting rules.

¹⁸ Division Mem. (Sept. 16, 2020); [http://www.ripuc.ri.gov/eventsactions/docket/5054-5040-DIV Memo 9-16-20.pdf](http://www.ripuc.ri.gov/eventsactions/docket/5054-5040-DIV%20Memo%209-16-20.pdf). Because the issues involved in calculating the PAF are similar to the issues involved in calculating the gas PAF in National Grid's Distribution Adjustment Charge (DAC) filing in Docket No. 5040, the PUC requested that the Division review and address both the gas and electric PAFs in its memorandum. Similarly, the PUC combined its discovery requests directed at the Company in both dockets and, because the witnesses for both the Division and the Company were the same for both dockets, conducted a combined hearing on both dockets on September 29, 2020. This Order addresses only the electric PAF, the gas PAF will be addressed in the DAC proceeding.

¹⁹ *Id* at 2.

At an Open Meeting held on September 29, 2020, the PUC, based on the Division's recommendation, approved National Grid's proposed 2020 Pension Adjustment Credit Factor for effect on October 1, 2020.

Accordingly, it is hereby:

(23922) ORDERED:

The Narragansett Electric Company d/b/a National Grid's proposed 2020 Pension Adjustment Credit Factor of \$0.00073/kWh for effect on October 1, 2020, is approved.

EFFECTIVE AT WARWICK, RHODE ISLAND ON OCTOBER 1, 2020 PURSUANT TO AN OPEN MEETING DECISION HELD ON SEPTEMBER 29, 2020. WRITTEN ORDER ISSUED OCTOBER 8, 2020.

PUBLIC UTILITIES COMMISSION



Ronald T. Gerwatowski, Chairperson



Marion S. Gold, Commissioner



Abigail Anthony, Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.